

**REPORT OF THE AUDIT OF THE
MERCER COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2004**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable John Trisler, Mercer County Judge/Executive
Members of the Mercer County Fiscal Court

The enclosed report prepared by Tichenor & Associates, LLP, Certified Public Accountants, presents the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mercer County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements.

We engaged Tichenor & Associates, LLP to perform the audit of these financial statements. We worked closely with the firm during our report review process; Tichenor & Associates, LLP evaluated the Mercer County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MERCER COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2004**

Tichenor & Associates, LLP, has completed the Mercer County Fiscal Court audit for fiscal year ended June 30, 2004. We have issued an unqualified opinion on the governmental activities, each major fund, and the aggregate remaining fund information of Mercer County, Kentucky. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

The fiscal court had net assets of \$5,593,078 as of June 30, 2004. The fiscal court had unrestricted net assets of \$4,221,320 in its governmental activities as of June 30, 2004.

Deposits:

The fiscal courts deposits were insured and collateralized by bank securities or bonds.

Report Comments:

- The County Should Reconcile The Payroll Revolving Account On A Monthly Basis
- The County Should Deposit Funds Daily And Stamp Checks To Prevent Further Negotiation

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APPENDIX A:

CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

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To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable John Trisler, Mercer County Judge/Executive
Members of the Mercer County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mercer County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Mercer County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Mercer County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Mercer County, Kentucky, as of June 30, 2004, for the year then ended in conformity with the basis of accounting described in Note 1.

The county has chosen not to present the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The Budgetary Comparison Information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.

To the People of Kentucky
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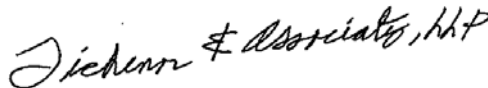
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Mercer County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated August 8, 2005 on our consideration of Mercer County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The County Should Reconcile The Payroll Revolving Account On A Monthly Basis
- The County Should Deposit Funds Daily And Stamp Checks To Prevent Further Negotiation

Respectfully submitted,

A handwritten signature in cursive script that reads "Tichenor & Associates, LLP".

Tichenor & Associates, LLP

Audit fieldwork completed -
August 8, 2005

MERCER COUNTY OFFICIALS

For The Year Ended June 30, 2004

Fiscal Court Members:

John D. Trisler	County Judge/Executive
Wayne Russell	Magistrate
J.B. Claunch	Magistrate
Larry Peyton	Magistrate
Bill Waggener	Magistrate
Wayne Jackson	Magistrate
Eddie Burton	Magistrate

Other Elected Officials:

Douglas L. Greenburg	County Attorney
Cleo Baker, Jr.	Jailer
Ronnie Compton	County Clerk
Rose Bishop	Circuit Court Clerk
Ralph Anderson	Sheriff
Neila L. Monroe	Property Valuation Administrator
Sonny Ransdell	Coroner

Appointed Personnel:

Gayle Horn	County Treasurer
Sandy Sanders	Occupational Tax Collector
Billy Humphrey	Road Supervisor

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MERCER COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

**MERCER COUNTY FISCAL COURT
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

June 30, 2004

	Primary Government Governmental Activities
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 4,287,107
Total Current Assets	<u>\$ 4,287,107</u>
Noncurrent Assets:	
Capital Assets - Net of Accumulated Depreciation:	
Land and Land Improvements	\$ 50,000
Buildings and Building Improvements	476,436
Vehicles	120,487
Machinery and Equipment	318,714
Infrastructure	344,923
Total Noncurrent Assets	<u>\$ 1,310,560</u>
Total Assets	<u>\$ 5,597,667</u>
LIABILITIES	
Current Liabilities:	
Payroll Revolving Account	\$ 4,589
Total Liabilities	<u>\$ 4,589</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	\$ 1,305,971
Restricted	65,787
Unrestricted	4,221,320
Total Net Assets	<u>\$ 5,593,078</u>

The accompanying notes are an integral part of the financial statements.

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MERCER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2004

MERCER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

Functions/Programs Reporting Entity	<u>Program Revenues Received</u>			<u>Net (Expenses) Revenues and Changes in Net Assets Primary Government</u>	
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Totals
Primary Government:					
Governmental Activities:					
General Government	\$ 741,125	\$ 99,895	\$ 193,300	\$ (447,930)	\$ (447,930)
Protection to Persons and Property	826,928	25,254		(801,674)	(801,674)
General Health and Sanitation	494,859	11,316	13,250	(470,293)	(470,293)
General Services	149,597			(149,597)	(149,597)
Social Services	39,762			(39,762)	(39,762)
Recreation and Culture	188,617			(188,617)	(188,617)
Roads	626,152		728,780	102,628	102,628
Fringe Benefits	546,771			(546,771)	(546,771)
Transportation Facilities and Services	8,339			(8,339)	(8,339)
Total Governmental Activities	<u>\$ 3,622,150</u>	<u>\$ 136,465</u>	<u>\$ 935,330</u>	<u>\$ (2,550,355)</u>	<u>\$ (2,550,355)</u>
General Revenues:					
Taxes:					
Real Property Taxes					\$ 578,478
Personal Property Taxes					41,038
Motor Vehicle Taxes					121,840
Occupational Taxes					1,132,111
Other Taxes					487,847
Surcharges					59,194
Excess Fees					145,230
Interest					48,347
Miscellaneous Revenues					<u>289,907</u>
Total General Revenues					<u>2,903,992</u>
Change in Net Assets					353,637
Net Assets - Beginning (Restated)					<u>5,239,441</u>
Net Assets - Ending					<u>\$ 5,593,078</u>

The accompanying notes are an integral part of the financial statements.

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MERCER COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2004

MERCER COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

	General Fund	Road Fund	Jail Fund	Non- Major Funds	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 1,099,882	\$ 1,341,592	\$ 514,771	\$ 1,330,862	\$ 4,287,107
Total Assets	<u>\$ 1,099,882</u>	<u>\$ 1,341,592</u>	<u>\$ 514,771</u>	<u>\$ 1,330,862</u>	<u>\$ 4,287,107</u>
FUND BALANCES					
Reserved for:					
Encumbrances	\$ 9,716	\$ 6,044	\$ 333	\$ 99	\$ 16,192
Landfill Costs				65,787	65,787
Unreserved:					
General Fund	1,090,166				1,090,166
Special Revenue Funds		1,335,548	514,438	1,264,976	3,114,962
Total Fund Balances	<u>\$ 1,099,882</u>	<u>\$ 1,341,592</u>	<u>\$ 514,771</u>	<u>\$ 1,330,862</u>	<u>\$ 4,287,107</u>

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 4,287,107
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used In Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported in the Funds.	2,304,423
Accumulated Depreciation	(993,863)
Short-term Debt Not Due And Payable In The Current Period,	
Therefore, Not Reported In The Funds.	
Payroll Revolving Account	<u>(4,589)</u>
Net Assets Of Governmental Activities	<u>\$ 5,593,078</u>

The accompanying notes are an integral part of the financial statements.

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MERCER COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

MERCER COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>Non- Major Funds</u>	<u>Total Governmental Funds</u>
REVENUES					
Taxes	\$ 998,383	\$	\$	\$ 1,132,111	\$ 2,130,494
In Lieu Tax Payments	5,565				5,565
Excess Fees	145,230				145,230
Licenses and Permits	47,099				47,099
Intergovernmental	359,711	918,563	78,695	94,452	1,451,421
Charges for Services	52,540		11,238	11,316	75,094
Miscellaneous	38,303	3,323	540	30,370	72,536
Interest	9,762	8,239	9,862	20,484	48,347
Total Revenues	<u>1,656,593</u>	<u>930,125</u>	<u>100,335</u>	<u>1,288,733</u>	<u>3,975,786</u>
EXPENDITURES					
General Government	627,939	3,600		24,781	656,320
Protection to Persons and Property	345,061		508,274		853,335
General Health and Sanitation	297,521	91		197,247	494,859
General Services	149,469			128	149,597
Social Services	39,762				39,762
Bank Charges		67	74		141
Fringe Benefits	433,695	113,076			546,771
Recreation and Culture	188,617				188,617
Roads		896,521		33,151	929,672
Transportation Facilities		8,339			8,339
Grants	19,175				19,175
Total Expenditures	<u>2,101,239</u>	<u>1,021,694</u>	<u>508,348</u>	<u>255,307</u>	<u>3,886,588</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(444,646)</u>	<u>(91,569)</u>	<u>(408,013)</u>	<u>1,033,426</u>	<u>89,198</u>
Other Financing Sources (Uses)					
Transfers From Other Funds	743,920	200,000	432,000	100,000	1,475,920
Transfers To Other Funds	<u>(432,000)</u>	<u>(43,920)</u>		<u>(1,000,000)</u>	<u>(1,475,920)</u>
Total Financing Sources (Uses)	<u>311,920</u>	<u>156,080</u>	<u>432,000</u>	<u>(900,000)</u>	
Net Change in Fund Balances	(132,726)	64,511	23,987	133,426	89,198
Fund Balances - Beginning (Restated)	<u>1,232,608</u>	<u>1,277,081</u>	<u>490,784</u>	<u>1,197,436</u>	<u>4,197,909</u>
Fund Balances - Ending	<u>\$ 1,099,882</u>	<u>\$ 1,341,592</u>	<u>\$ 514,771</u>	<u>\$ 1,330,862</u>	<u>\$ 4,287,107</u>

The accompanying notes are an integral part of the financial statements.

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MERCER COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

MERCER COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ 89,198
Governmental Funds Report Capital Outlay As Expenditures. However, In The Statement Of Activities The Cost Of Those Assets Are Allocated Over Their Estimated Useful Lives And Reported As Depreciation Expense.	
Capital Outlay	446,760
Depreciation Expense	<u>(182,321)</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 353,637</u></u>

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-side and fund financial statements utilizing a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivable, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

B. Reporting Entity

The financial statements of Mercer County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14, there are no component units which merit consideration as part of the reporting entity.

Additional – Mercer County Elected Officials

- County Attorney
- Jailer
- County Clerk
- Circuit Court Clerk
- Sheriff
- Property Valuation Administrator
- Coroner

Kentucky law provides for the election of officials from the geographic area constituting Mercer County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

C. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these financial statements. Governmental activities are supported by taxes and intergovernmental revenues. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Government-wide and Fund Financial Statements (Continued)

The government-wide statements are reported using the economic resources measurement focus and the modified cash basis of accounting. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets. 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and 2) operating grants and contributions. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds and whose total assets, liabilities, revenues, or expenditures are at least five percent of the corresponding total for all governmental funds combined. The fiscal court may also designate any fund as major.

D. Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, and other counties for housing prisoners and transfers from the General Fund. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Governmental Funds (Continued)

The primary government also has the following non-major funds: Local Government Economic Assistance Fund, Landfill Fund, and the Payroll and Net Profit Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Landfill Fund, and the Payroll and Net Profit Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, building improvements, infrastructure (roads and bridges) machinery, equipment, and intangibles that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land and Land Improvements	\$ 12,500	10-45
Buildings and Building Improvements	\$ 25,000	10-60
Infrastructure	\$ 10,000	10-40
Machinery and Equipment	\$ 5,000	3-20
Intangibles	\$ 5,000	3-40

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balance may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet-Governmental Funds as part of the fund balance.

H. Legal Compliance - Budget

The Mercer County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

I. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Mercer County Fiscal Court: North Mercer Water District and the Mercer County Public Library.

J. Joint Ventures

A legal entity or other organization that results from a contractual agreement and that is owned, operated or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

J. Joint Ventures (Continued)

The County in conjunction with the City of Harrodsburg and the City of Burgin has created the Anderson/Dean Park Board (Board), whose purpose is to oversee the daily maintenance and administration of all business regarding the Anderson/Dean Park. The Board is composed of thirteen board members with six members appointed by the County Judge/Executive, with the approval of the fiscal court, six members appointed by the City of Burgin's Mayor, with the approval of the city council. The County and the City of Harrodsburg finance equally the operations budget of the Park. The City of Burgin has elected to make no financial contribution. The County and the City of Harrodsburg jointly own the Park.

The Greater Harrodsburg/Mercer County Planning and Zoning Commission, whose purpose is to carry out a joint county/city planning program in order to assure the development of public and private property in the most appropriate relationships and to promote orderly growth, is a joint commission of Mercer County and the City of Harrodsburg. The County Judge/Executive with the approval of fiscal court appoints three members and the Mayor with the approval of the city council appoints three members. The County has no equity interest.

The Harrodsburg/Mercer County Industrial Development Authority, whose purpose is to acquire and develop industrial sites and plants for the community, is a joint board of Mercer County and the City of Harrodsburg. The County Judge/Executive with the approval of fiscal court appoints three members and the Mayor with the approval of the city council appoints three members. The County has no equity interest.

Note 2. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2004, the County's deposits were fully insured or collateralized at a 100% level.

Note 3. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 3. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 50,000	\$	\$	\$ 50,000
Total Capital Assets Not Being Depreciated	50,000			50,000
Capital Assets, Being Depreciated:				
Buildings	768,528			768,528
Equipment	542,609			542,609
Vehicles	496,526	65,214		561,740
Infrastructure		381,546		381,546
Total Capital Assets Being Depreciated	1,807,663	446,760		2,254,423
Less Accumulated Depreciation For:				
Buildings	(273,217)	(18,875)		(292,092)
Equipment	(190,624)	(33,271)		(223,895)
Vehicles	(347,701)	(93,552)		(441,253)
Infrastructure		(36,623)		(36,623)
Total Accumulated Depreciation	(811,542)	(182,321)		(993,863)
Total Capital Assets, Being Depreciated, Net	996,121	264,439		1,260,560
Governmental Activities Capital Assets, Net	\$ 1,046,121	\$ 264,439	\$	\$ 1,310,560

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 4. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 65,489
Protection to Persons and Property	1,172
Roads	<u>115,660</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 182,321</u>

Note 5. Interlocal Cooperation Agreement

Mercer County has entered into an Interlocal Cooperation Agreement with Boyle County to share in the cost of a regional jail facility. The facility will be owned by Boyle County. Mercer County agrees to pay a percentage, not below 35%, nor to exceed 50%, of the yearly costs in exchange for use of the facility for Mercer County prisoners.

Note 6. Lease Agreement

Mercer County was committed to a lease agreement with IOS Capital for a copier. The agreement requires a monthly payment of \$124 for 48 months to be completed in March 2008. The total balance of the agreement was \$5,456 as of June 30, 2004.

Note 7. Insurance

For the fiscal year ended June 30, 2004, Mercer County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 8. Solid Waste Landfill

Mercer County Fiscal Court (the County) operated a landfill, which ceased operations on June 30, 1992. The County initiated closure operations in August 1991. Closure costs were estimated to be \$52,700 and the County completed the steps necessary to close the landfill. The County believes that it has met all federal, state, and local laws and regulations in regard to the closure of the landfill. Postclosure care consists primarily of groundwater monitoring and landscape maintenance. The County is required to file reports with the appropriate regulatory agencies regarding the findings and groundwater monitoring activities. Postclosure costs are included in the Landfill Fund. Inflation, deflation, technology, or applicable laws and regulations could affect these costs.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 9. Changes in Accounting Principles and Prior Period Adjustments

The county has implemented Governmental Accounting Standards Board (GASB) Statements 33, 34 and 37, as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements. The beginning net asset balance for the governmental-activities was \$5,239,441 and the beginning fund balance for the governmental funds was \$4,197,909, for an increase of \$1,041,532. The primary reason for this change was the inclusion of capital assets previously omitted.

MERCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004

MERCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2004

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 979,000	\$ 979,000	\$ 998,383	\$ 19,383
In Lieu Tax Payments	5,500	5,500	5,565	65
Excess Fees	114,780	114,780	145,230	30,450
Licenses and Permits	50,000	50,000	47,099	(2,901)
Intergovernmental Revenue	1,886,760	2,136,760	359,711	(1,777,049)
Charges for Services	52,500	52,500	52,540	40
Miscellaneous	38,500	38,500	38,303	(197)
Interest	23,000	23,000	9,762	(13,238)
Total Revenues	<u>3,150,040</u>	<u>3,400,040</u>	<u>1,656,593</u>	<u>(1,743,447)</u>
EXPENDITURES				
General Government	626,920	693,257	627,939	65,318
Protection to Persons and Property	428,560	491,193	345,061	146,132
General Health and Sanitation	1,553,300	1,553,488	297,521	1,255,967
Social Services	353,850	354,150	39,762	314,388
Recreation and Culture	290,000	299,425	188,617	110,808
General Services	135,650	151,595	149,469	2,126
Reserve for Transfers	175,000	43		43
Fringe Benefits	425,000	438,100	433,695	4,405
Grants	13,000	20,029	19,175	854
Capital Projects		250,000		250,000
Total Expenditures	<u>4,001,280</u>	<u>4,251,280</u>	<u>2,101,239</u>	<u>2,150,041</u>
Excess (Deficiency) of Revenues				
Over Expenditures Before Other	(851,240)	(851,240)	(444,646)	(406,594)
Financing Sources (Uses)				
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	816,590	816,590	743,920	72,670
Transfers To Other Funds	(565,350)	(565,350)	(432,000)	(133,350)
Total Other Financing Sources (Uses)	<u>251,240</u>	<u>251,240</u>	<u>311,920</u>	<u>(60,680)</u>
Net Changes in Fund Balances	(600,000)	(600,000)	(132,726)	(467,274)
Fund Balances - Beginning	<u>600,000</u>	<u>600,000</u>	<u>1,232,608</u>	<u>(632,608)</u>
Fund Balances - Ending	<u>\$</u>	<u>\$</u>	<u>\$ 1,099,882</u>	<u>\$ (1,099,882)</u>

MERCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 796,095	\$ 796,095	\$ 918,563	\$ 122,468
Miscellaneous	6,500	6,500	3,323	(3,177)
Interest	18,000	18,000	8,239	(9,761)
Total Revenues	820,595	820,595	930,125	109,530
EXPENDITURES				
General Government	7,200	7,200	3,600	3,600
General Health and Sanitation	27,000	27,000	91	26,909
Transportation Facilities and Services	9,000	9,000	7,689	1,311
Roads	893,500	961,267	896,521	64,746
Other Transportation Facilities and Services	700	700	650	50
Capital Projects	125,000	125,000		125,000
Bank Charges	250	250	67	183
Reserve for Transfers	125,000	56,303		56,303
Administration	118,500	119,430	113,076	6,354
Total Expenditures	1,306,150	1,306,150	1,021,694	284,456
Excess (Deficiency) of Revenues				
Over Expenditures Before Other Financing Sources (Uses)	(485,555)	(485,555)	(91,569)	(393,986)
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	319,475	319,475	200,000	119,475
Transfers To Other Funds	(43,920)	(43,920)	(43,920)	
Total Other Financing Sources (Uses)	275,555	275,555	156,080	119,475
Net Changes in Fund Balances	(210,000)	(210,000)	64,511	(274,511)
Fund Balances - Beginning	210,000	210,000	1,277,081	(1,067,081)
Fund Balances - Ending	\$	\$	\$ 1,341,592	\$ (1,341,592)

MERCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Intergovernmental Revenue	\$ 68,150	\$ 68,150	\$ 78,695	\$ 10,545
Charges for Services	12,300	12,300	11,238	(1,062)
Miscellaneous	700	700	540	(160)
Interest	18,500	18,500	9,862	(8,638)
Total Revenues	99,650	99,650	100,335	685
EXPENDITURES				
Protection to Persons and Property	639,800	645,110	508,274	136,836
Bank Charges	200	200	74	126
Reserve for Transfers	75,000	69,690		69,690
Total Expenditures	715,000	715,000	508,348	206,652
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(615,350)	(615,350)	(408,013)	(207,337)
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	565,350	565,350	432,000	133,350
Total Other Financing Sources (Uses)	565,350	565,350	432,000	133,350
Net Changes in Fund Balances	(50,000)	(50,000)	23,987	(73,987)
Fund Balances - Beginning	50,000	50,000	490,784	(440,784)
Fund Balances - Ending	\$	\$	\$ 514,771	\$ (514,771)

MERCER COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2004

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

MERCER COUNTY
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2004

MERCER COUNTY
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2004

	Local Government Economic Assistance Fund	Landfill Fund	Payroll & Net Profit Fund	Total Non-Major Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 57,393	\$ 65,787	\$ 1,207,682	\$ 1,330,862
Total Assets	<u>57,393</u>	<u>65,787</u>	<u>1,207,682</u>	<u>1,330,862</u>
FUND BALANCES				
Reserved for:				
Encumbrances	\$	\$	99	\$ 99
Landfill Costs		65,787		65,787
Unreserved:				
Special Revenue Funds	<u>57,393</u>		<u>1,207,583</u>	<u>1,264,976</u>
Total Fund Balances	<u>\$ 57,393</u>	<u>\$ 65,787</u>	<u>\$ 1,207,682</u>	<u>\$ 1,330,862</u>

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MERCER COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENT FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2004

MERCER COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENT FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2004

	Local Government Economic Assistance Fund	Landfill Fund	Payroll and Net Profit Fund	Total Non-Major Governmental Funds
REVENUES				
Taxes	\$	\$	\$ 1,132,111	\$ 1,132,111
Intergovernmental	35,315	59,137		94,452
Charges for Services		11,316		11,316
Miscellaneous		30,095	275	30,370
Interest	626	284	19,574	20,484
Total Revenues	<u>35,941</u>	<u>100,832</u>	<u>1,151,960</u>	<u>1,288,733</u>
EXPENDITURES				
General Government			24,781	24,781
General Health and Sanitation		197,247		197,247
General Services			128	128
Roads	33,151			33,151
Total Expenditures	<u>33,151</u>	<u>197,247</u>	<u>24,909</u>	<u>255,307</u>
Excess (deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>2,790</u>	<u>(96,415)</u>	<u>1,127,051</u>	<u>1,033,426</u>
Other Financing Sources (Uses)				
Transfers From Other Funds		100,000		100,000
Transfers To Other Funds			(1,000,000)	(1,000,000)
Total Other Financing Sources (Uses)		<u>100,000</u>	<u>(1,000,000)</u>	<u>(900,000)</u>
Net Change in Fund Balances	2,790	3,585	127,051	133,426
Fund Balances - Beginning (Restated)	54,603	62,202	1,080,631	1,197,436
Fund Balances - Ending	<u>\$ 57,393</u>	<u>\$ 65,787</u>	<u>\$ 1,207,682</u>	<u>\$ 1,330,862</u>

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

TICHENOR & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS and MANAGEMENT CONSULTANTS

304 MIDDLETOWN PARK PLACE SUITE C
LOUISVILLE, KY 40243

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E-MAIL: wtichenor@tichenorassociates.com

Honorable John Trisler, Mercer County Judge/Executive
Members of the Mercer County Fiscal Court

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mercer County, Kentucky, as of and for the year ended June 30, 2004, and have issued our report thereon dated August 8, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mercer County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that in our judgment, could adversely affect Mercer County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying comments and recommendations.

- The County Should Reconcile The Payroll Revolving Account On A Monthly Basis
- The County Should Deposit Funds Daily And Stamp Checks To Prevent Further Negotiation

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable conditions described above are not material weaknesses.

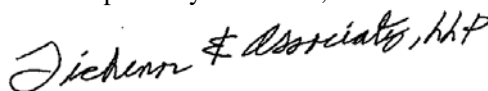
Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Mercer County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Tichenor & Associates, LLP". The signature is written in a cursive, flowing style.

Tichenor & Associates, LLP

Audit fieldwork completed -
August 8, 2005

COMMENTS AND RECOMMENDATIONS

**MERCER COUNTY FISCAL COURT
COMMENTS AND RECOMMENDATIONS**

For The Fiscal Year Ended June 30, 2004

REPORTABLE CONDITIONS

The County Should Reconcile The Payroll Revolving Account On A Monthly Basis

During our testing, we noted the payroll revolving account is not being reconciled. Auditor performed the bank reconciliation by compiling the outstanding check summary using payroll files, check copies, and bank statements. It is recommended that this account be reconciled monthly.

County Judge/Executive John Trisler's Response:

Since the Treasurer does the payroll, Gayle had asked the other employee in our office to reconcile the bank statements for the payroll revolving account each month to fulfill the "segregation of duties". I did not know she was not doing that! In the future, we will make sure those statements are reconciled every month.

The County Should Deposit Funds Daily And Stamp Checks To Prevent Further Negotiation

During our review of the internal control questionnaire, it was noted that the Treasurer makes deposits one to two times per week. Additionally, checks are not stamped on back to prevent further negotiation. For proper internal control procedures, checks should get stamped immediately upon receipt to prevent further negotiation and checks should be deposited on a daily basis. It is recommended to follow proper internal control procedures.

County Judge/Executive John Trisler's Response:

The Treasurer will stamp incoming checks upon receipt, and will take deposits as often as needed. We do not receive checks every day, but will try to deposit more often.

PRIOR YEAR FINDING

The following finding was reported in the prior year audit report. The finding has been corrected in the current year.

- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

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**CERTIFICATION OF COMPLIANCE-
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

MERCER COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2004**

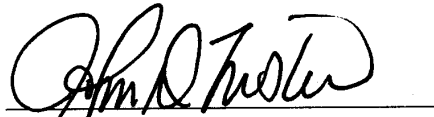
CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

MERCER COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2004

The Mercer County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended, as dictated by the applicable Kentucky Revised Statutes.



Name

County Judge/Executive



Name

County Treasurer